

CLAIMS

1. (Currently Amended) A credit risk mitigation system for swap transactions between counterparties, comprising

a plurality of counterparties;

~~at least two~~ pairs of the counterparties, interested in forming a swap to hedge a forward contract with each other:

a system counterparty, which forms paired basis swaps with pairs of counterparties interested in forming a swap; the system counterparty making paired, balanced offsetting swaps with the individual members of a pair of counterparties interested in forming a swap and simultaneously creating a swaption with each of the pair of counterparties, the system counterparty including;

a data storage means for retaining all of the swaps the system counterparty enters into with each other counterparty;

communication means coupled to the system counterparty for allowing the system counterparty to communicate with potential pairs of counterparties interested in forming a the swap to receive potential swap contract information and to communicate paired basis swap information to accepted pairs of counterparties and collateral requirements with each accepted swap between the system counterparty and the other counterparty to such swap;

termination means coupled to the system counterparty for determining if a counterparty to an accepted swap is in default and if in default selecting an appropriate response.

2. (Currently Amended) A method of risk mitigation and collateralization of a swap used to hedge a forward contract during delivery, comprising:

qualifying a plurality of eligible counterparties, pairs of which desire to form swaps;

forming offsetting paired basis swaps with a central swap authority for each of the pairs of counterparties;

evaluating an ~~the~~ initial fixed value at risk for each counterparty to the swaps with the central swap authority;

calculating an ~~the~~ initial collateral required by each counterparty to a swap with the central swap authority based on an agreed upon termination payment;

assuring that a ~~the~~ required collateral by each counterparty is in the central swap authority's possession each delivery day;

transferring the payment under the forward contract from one counterparty's funds held by the central swap authority to the other counterparty's control for each day's notional delivery under the forward contract;

determining a ~~the~~ floating rate index contract price for a day;

updating ~~the~~ new collateral requirements based on the difference between the fixed rate contract price and the floating rate index contract price for the previous day;

terminating the paired swap if one of the counterparties defaults in any of its obligations to make payments to the central swap authority and making the agreed upon termination payment to the non-defaulting paired swap counterparty.

3. (Currently Amended) A method of risk mitigation and collateralization of a swap used to hedge a forward contract, comprising:

qualifying a plurality of eligible counterparties, pairs of which desire to form swaps;

forming offsetting paired basis swaps with a central swap authority for each of the pairs of counterparties;

evaluating an ~~the~~ initial fixed value at risk for each counterparty to the swaps with the central swap authority;

calculating an ~~the~~ initial collateral required by each counterparty to a swap with the central swap authority based on an agreed upon termination payment;

assuring that a ~~the~~ required collateral by each counterparty is in the central swap authority's possession each delivery day;

transferring the payment under the forward contract from one counterparty's funds held by the central swap authority to the other counterparty's control for each day's notional delivery under the forward contract;

determining a ~~the~~ floating rate index contract price for a day;

updating ~~the~~ new collateral requirements based on the difference between the fixed rate contract price and the floating rate index contract price for the previous day;

terminating the paired swap if one of the counterparties defaults in any of its obligations to make payments to the central swap authority and making the agreed upon termination payment to the non-defaulting paired swap counterparty ~~and/or~~ or exercising a swaption with such counterparty.

4. (New) The credit risk mitigation system of Claim 1, wherein the appropriate response is a termination of the swap with a termination payment to a non-defaulting party.

5. (New) The credit risk mitigation system of Claim 1, wherein the appropriate response is a substitution of the swap with an equal swap to a non-defaulting party.

6. (New) The credit risk mitigation system of Claim 1, wherein the appropriate response is a re-pairing of the swap with a correlated swap and a correlated termination payment to a non-defaulting party.